

**CITY OF SPIRIT LAKE  
INDEPENDENT AUDITORS' REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS  
JUNE 30, 2008**

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CITY OF SPIRIT LAKE  
OFFICIALS

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
Eric Nielsen	Mayor - to December 31, 2007	
Blain Andera	Mayor - from January 1, 2008	December 31, 2012
Jerry Harbst	Council Member	December 31, 2011
Jeff Thee	Council Member - from January 1, 2008	December 31, 2011
Kevin Bice	Council Member	December 31, 2007
Clyde Ihrke	Council Member	December 31, 2009
Steve Balm	Council Member	December 31, 2009
Sara Frerichs	Council Member - to December 31, 2007	
Mark Stevens	Clerk/Administrator/Treasurer	December 31, 2009
Earl Maahs	Attorney	December 31, 2009

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and  
Members of the City Council  
City of Spirit Lake  
Spirit Lake, IA 51360

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Spirit Lake, Iowa, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Spirit Lake's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Spirit Lake at June 30, 2008 and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 16, 2009 on our consideration of the City of Spirit Lake's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's discussion and analysis and budgetary comparison information on pages 4 through 13 and 55 through 59 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Spirit Lake's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2007 (which are not presented herein) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Wenther, Steve K. KKH*

January 16, 2009

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Spirit Lake provides this management's discussion and analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2008. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### 2008 Financial Highlights

- Revenues of the City's governmental activities increased .26%, or approximately \$15,000 from fiscal 2007 to fiscal 2008. Property tax decreased approximately \$175,200.
- Program expenditures decreased by 47.08% or approximately \$6,588,000 in fiscal 2008 from fiscal 2007. A summary of the changes is as follows:

	Approximate increase (decrease) from fiscal 2007
Public safety .....	\$ 10,700
Public works .....	(620,200)
Culture and recreation .....	(24,300)
Community and economic development .....	(251,300)
General government .....	36,800
Debt service .....	(937,400)
Capital projects .....	<u>(4,802,300)</u>
Net decrease	<u>\$ (6,588,000)</u>

- The City's net assets increased 7.51%, or approximately \$1,614,000, from June 30, 2007 to June 30, 2008. Of this amount, the net assets of the governmental funds increased by approximately \$1,176,600 and the net assets of the business type activities increased by approximately \$437,400.

### Using This Annual Report

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These statements provide information about the activities of the City as a whole and present an overall view of the City's finances.

The fund financial statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statements by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the non-major governmental funds.

## **Basis of Accounting**

The City financial statements are prepared in accordance with U.S. generally accepted accounting principles (GAAP). The City prepares its budget and maintains its financial records on the cash basis.

## **Reporting The City's Financial Activities**

### Government-wide Financial Statements

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities reports information which helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting and the economic resources measurement focus, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

The Statement of Net Assets presents all of the City's assets and liabilities, with the difference reported as "net assets". Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the City's net assets changed during the most recent fiscal year.

The Statement of Net Assets and the Statement of Activities report two kinds of activities:

- Governmental activities include public safety, public works, culture and recreation, community and economic development, general government, debt service, and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks, the sanitary sewer system, and the solid waste department. These activities are financed primarily by user charges.

### Fund Financial Statements

The City has two kinds of funds:

1. Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: (a) the General Fund, (b) the Special Revenue Funds, such as Local Option Sales Tax and Tax Increment Financing, (c) the Debt Service Fund, and (d) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a balance sheet and a statement of revenue, expenditures and changes in fund balances.

- Proprietary funds account for the City's Enterprise and Internal Service Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the water, sewer, and solid waste funds, considered to be major funds of the City. The City has two Internal Service Funds which are used to account for the City's self-insurance and to account for reserves accumulated to fund future equipment purchases.

The required financial statements for proprietary funds include a statement of net assets, a statement of revenue, expenses and changes in fund net assets, and a statement of cash flows.

### Government-Wide Financial Analysis

Net assets may serve over time as a useful indicator of financial position. The analysis that follows focuses on the changes in the net assets for governmental and business type activities.

#### Net Assets as of June 30, 2008

	Governmental Activities	Business Type Activities	Total
Current and other assets .....	\$ 6,931,789	\$ 2,530,017	\$ 9,461,806
Capital assets .....	<u>37,299,269</u>	<u>13,762,247</u>	<u>51,061,516</u>
Total assets	<u>44,231,058</u>	<u>16,292,264</u>	<u>60,523,322</u>
Long-term liabilities .....	24,589,899	5,524,715	30,114,614
Other liabilities .....	<u>7,164,168</u>	<u>140,004</u>	<u>7,304,172</u>
Total liabilities	<u>31,754,067</u>	<u>5,664,719</u>	<u>37,418,786</u>
Net assets:			
Invested in capital assets - net of related debt .....	12,803,378	7,632,703	20,436,081
Restricted .....	1,254,947	20,062	1,275,009
Unrestricted .....	<u>(1,581,334)</u>	<u>2,974,780</u>	<u>1,393,446</u>
Total net assets	<u>\$12,476,991</u>	<u>\$10,627,545</u>	<u>\$23,104,536</u>

#### Net Assets as of June 30, 2007

	Governmental Activities	Business Type Activities	Total
Current and other assets .....	\$ 5,740,288	\$ 3,119,252	\$ 8,859,540
Capital assets .....	<u>35,884,983</u>	<u>12,868,785</u>	<u>48,753,768</u>
Total assets	<u>41,625,271</u>	<u>15,988,037</u>	<u>57,613,308</u>
Long-term liabilities .....	20,353,701	5,409,238	25,762,939
Other liabilities .....	<u>9,971,172</u>	<u>388,649</u>	<u>10,359,821</u>
Total liabilities	<u>30,324,873</u>	<u>5,797,887</u>	<u>36,122,760</u>
Net assets:			
Invested in capital assets - net of related debt .....	12,444,639	7,946,888	20,391,527
Restricted .....	721,723	20,124	741,847
Unrestricted .....	<u>(1,865,964)</u>	<u>2,223,138</u>	<u>357,174</u>
Total net assets	<u>\$11,300,398</u>	<u>\$10,190,150</u>	<u>\$21,490,548</u>



# Changes in Net Assets for the Year Ended June 30, 2008

	Governmental Activities	Business Type Activities	Total
Revenues:			
Program revenues:			
Charges for services .....	\$ 101,013	\$ 2,688,807	\$ 2,789,820
Operating grants, contributions, and restricted interest .....	483,718	9,455	493,173
Capital grants, contributions, and restricted interest .....	6,734		6,734
General revenues:			
Property and other city taxes .....	1,512,556		1,512,556
Tax increment financing .....	2,848,645		2,848,645
Local option sales tax .....	754,080		754,080
Unrestricted investment earnings .....	80,067	46,208	126,275
Unrestricted miscellaneous .....	30,755		30,755
Gain (loss) on sale of capital assets .....	8,677	(1,587)	7,090
Operating transfers .....	(23,832)	23,832	
Total revenues	<u>5,802,413</u>	<u>2,766,715</u>	<u>8,569,128</u>
Program expenses:			
Public safety .....	956,214		956,214
Public works .....	1,472,552		1,472,552
Culture and recreation .....	600,298		600,298
Community and economic development .....	162,026		162,026
General government .....	368,387		368,387
Debt service .....	1,066,343		1,066,343
Water .....		1,418,898	1,418,898
Sewer .....		198,978	198,978
Solid waste .....		711,444	711,444
Total expenses	<u>4,625,820</u>	<u>2,329,320</u>	<u>6,955,140</u>
Change in net assets	1,176,593	437,395	1,613,988
Net assets - beginning of year .....	<u>11,300,398</u>	<u>10,190,150</u>	<u>21,490,548</u>
Net assets - end of year	<u>\$12,476,991</u>	<u>\$10,627,545</u>	<u>\$23,104,536</u>

Net assets of governmental activities increased from FY07 by approximately \$1,176,600 or 10.41%. Net assets of business type activities increased from FY07 by approximately \$437,400 or 4.29%. The largest portion of the City's net assets is invested in capital assets (e.g. land, infrastructure, buildings, and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets. Restricted net assets represent resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Other restricted net assets are economic development loans.

Changes in Net Assets for the Year Ended June 30, 2007

	Governmental Activities	Business Type Activities	Total
Revenues:			
Program revenues:			
Charges for services .....	\$ 135,011	\$ 2,587,180	\$ 2,722,191
Operating grants, contributions, and restricted interest .....	591,625	7,174	598,799
Capital grants, contributions, and restricted interest .....	600,000	9,408	609,408
General revenues:			
Property and other city taxes .....	1,655,622		1,655,622
Tax increment financing .....	1,872,314		1,872,314
Local option sales tax .....	795,608		795,608
Unrestricted investment earnings .....	126,954	23,616	150,570
Unrestricted miscellaneous .....	109,728		109,728
Operating transfers .....	3,900	(3,900)	
Fixed asset transfers .....	(511,000)	511,000	
Total revenues	<u>5,379,762</u>	<u>3,134,478</u>	<u>8,514,240</u>
Program expenses:			
Public safety .....	905,379		905,379
Public works .....	1,387,418		1,387,418
Culture and recreation .....	592,154		592,154
Community and economic development .....	413,350		413,350
General government .....	347,308		347,308
Debt service .....	866,644		866,644
Water .....		1,525,870	1,525,870
Sewer .....		178,613	178,613
Solid waste .....		729,500	729,500
Total expenses	<u>4,512,253</u>	<u>2,433,983</u>	<u>6,946,236</u>
Change in net assets	867,509	700,495	1,568,004
Net assets - beginning of year .....	<u>10,432,889</u>	<u>9,489,655</u>	<u>19,922,544</u>
Net assets - end of year	<u>\$11,300,398</u>	<u>\$10,190,150</u>	<u>\$21,490,548</u>

## Individual Major Governmental Fund Analysis

### Changes in Fund Balances - Governmental Funds For the Years Ended June 30, 2008 and 2007

	2008 <u>All Funds</u>	2007 <u>All Funds</u>
Revenues .....	\$ 5,853,974	\$ 5,838,956
Expenditures .....	<u>7,406,032</u>	<u>13,994,077</u>
Net	(1,552,058)	(8,155,121)
Other financing sources and changes in inventories and prepaids	<u>5,418,568</u>	<u>5,231,993</u>
Increase (decrease) in fund balances	3,866,510	(2,923,128)
Fund balance - beginning of year .....	<u>(4,303,368)</u>	<u>(1,380,240)</u>
Fund balance - end of year	<u>\$ (436,858)</u>	<u>\$ (4,303,368)</u>

Governmental funds reported a combined fund deficit of \$436,858 at June 30, 2008 which was \$3,866,510 less than the fund deficit at June 30, 2007.

The general fund showed a modest decrease of \$5,511 to \$378,188.

The local option sales tax fund showed a decrease in fund balance of \$286,445 to \$133,468 due to transfers to other funds.

The tax increment financing fund showed an increase in fund balance of \$910,723 to \$955,652 due to an increase in tax increment financing revenues.

The capital projects fund showed an increase in fund balance of \$3,223,501 but is still showing a deficit of \$2,016,699. The increase in fund balance was due to proceeds from a new bond issue.

## Individual Major Business Type Fund Analysis

### Changes in Net Assets - Proprietary Funds For the Years Ended June 30, 2008 and 2007

	Enterprise Funds		Internal Service Funds	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Revenues .....	\$ 2,741,793	\$2,622,948	\$ 44,254	\$ 63,504
Expenses .....	<u>2,329,496</u>	<u>2,450,220</u>	<u>41,734</u>	<u>21,133</u>
Net	412,297	172,728	2,520	42,371
Net transfers .....	<u>(46,168)</u>	<u>436,600</u>	<u>166,137</u>	<u>117,500</u>
Increase in net assets	366,129	609,328	168,657	159,871
Net assets - beginning of year .....	<u>9,977,024</u>	<u>9,367,696</u>	<u>406,057</u>	<u>246,186</u>
Net assets - end of year	<u>\$10,343,153</u>	<u>\$9,977,024</u>	<u>\$ 574,714</u>	<u>\$ 406,057</u>

Proprietary funds reported combined net assets of \$10,917,867 at June 30, 2008 which was an increase of \$534,786 over the net assets at June 30, 2007.

The water, sewer, and solid waste funds all showed increases in net assets of \$145,680, \$71,483, and \$148,966, respectively. The internal services funds showed a combined increase in net assets of \$168,657.

### Budgetary Highlights

Over the course of the year, the City amended the budget twice. The final amendment was approved on May 27, 2008. These amendments were to cover additional expenditures primarily in the capital project, debt service, and business-type functions. Disbursements did not exceed budgeted amounts.

## Capital Assets and Debt Administration

### Capital Assets Administration

The City's capital assets are summarized as follows:

June 30, 2008

	Governmental Activities	Business Type Activities	Total
Land .....	\$ 412,903	\$ 96,859	\$ 509,762
Construction in progress .....	12,008,983	3,114,578	15,123,561
Buildings and improvements .....	1,934,184	5,814,548	7,748,732
Water towers .....		891,356	891,356
Equipment and vehicles .....	2,859,538	1,507,588	4,367,126
Infrastructure .....	<u>26,243,249</u>	<u>6,149,226</u>	<u>32,392,475</u>
Total capital assets	43,458,857	17,574,155	61,033,012
Less accumulated depreciation .....	<u>6,159,588</u>	<u>3,811,908</u>	<u>9,971,496</u>
Net capital assets	<u>\$37,299,269</u>	<u>\$13,762,247</u>	<u>\$51,061,516</u>
Depreciation expense .....	<u>\$ 839,443</u>	<u>\$ 349,261</u>	<u>\$ 1,188,704</u>

June 30, 2007

	Governmental Activities	Business Type Activities	Total
Land .....	\$ 412,903	\$ 96,859	\$ 509,762
Construction in progress .....	10,755,305	2,155,318	12,910,623
Buildings and improvements .....	1,908,473	5,814,548	7,723,021
Water towers .....		891,356	891,356
Equipment and vehicles .....	3,435,463	1,502,788	4,938,251
Infrastructure .....	<u>25,051,304</u>	<u>5,880,713</u>	<u>30,932,017</u>
Total capital assets	41,563,448	16,341,582	57,905,030
Less accumulated depreciation .....	<u>5,678,465</u>	<u>3,472,797</u>	<u>9,151,262</u>
Net capital assets	<u>\$35,884,983</u>	<u>\$12,868,785</u>	<u>\$48,753,768</u>
Depreciation expense .....	<u>\$ 804,368</u>	<u>\$ 338,912</u>	<u>\$ 1,143,280</u>

Major additions to government activities capital assets include the 2006 paving and lighting projects, and the 2007 paving and utility project.

Major additions to the business type activities capital assets include work on the new water tower, engineering work on the water expansion project, and sewer rehabilitation projects.

The City sold equipment it no longer needed for \$320,700.

## Debt Administration

At June 30, 2008, the City had \$30,232,485 in bonds and other long-term debt, compared to \$25,805,420 last year as shown below.

### Outstanding Debt at Year-End

	June 30,	
	<u>2008</u>	<u>2007</u>
General obligation bonds and notes .....	\$11,740,485	\$12,557,420
General obligation annual appropriation bonds .....	15,700,000	10,310,000
Water revenue capital loan notes .....	<u>2,792,000</u>	<u>2,938,000</u>
Total	<u>\$30,232,485</u>	<u>\$25,805,420</u>

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$11,740,485 is within its constitutional debt limit of \$18,513,205. The water revenue capital loan notes used to finance the water plant improvement project do not count toward the City's legal 5% debt limitations. The annual appropriation bonds count toward the City's debt limitation only to the extent of principal and interest due within the next fiscal year.

The City issued \$5,390,000 in general obligation annual appropriation bonds and \$269,065 of general obligation capital loan notes (reported in the water enterprise fund) during the year ended June 30, 2008.

### **Economic Factors Bearing on the City's Future**

The City Council and City Administration are continuing their focus on improving the overall financial condition of the city. The primary short-term goal is to increase General Fund balances. This is being accomplished by increasing tax revenue and controlling expenditures. Expenditure controls extend to all general government activities and will continue for the next few years.

The City's long-term goals include reducing the City's debt burden, improving financial controls and management practices, and addressing maintenance of existing facilities and infrastructure. Projects will continue to be addressed but on a more limited basis and, when possible, undertaken without incurring debt. City administration and financial advisors will routinely review outstanding debt to determine if refinancing is prudent and advisable.

The City has had favorable increases in its tax base over the past several years. This has been due to growth in commercial activity, improvements to existing properties, and market valuation increases for all properties. Recent national economic trends are being felt in the Lakes Area but fortunately to a lesser extent. However, recent local real estate market trends indicate that property valuations are not expected to increase in the near term. State financial difficulties are also thought to be a future challenge as they trickle down to local government. As a result, the near-term presents a likely difficult period as the City continues to strive to improve its financial position.

In spite of the contraction in the real estate market, the City remains a very attractive community. As the largest city in the State's premier tourist and recreation area, Spirit Lake continues to draw interest from developers. New housing starts remain relatively stable and there are prospects for some very significant new commercial developments.

The City will continue looking ahead to the future. Plans are in the works for beginning a new business and industrial park as the first one is nearly full. The City is nearly complete with the process of updating its Comprehensive Land Use Plan.

The City's Administration will increasingly focus attention on internal operations of city government. Cooperation between departments has been promoted but will be more fully explored for cost-saving opportunities. Similarly, intergovernmental cooperation has some opportunities. Energy efficiency and technology investments that are underway or planned should reduce future costs of operations.

### **Contacting the City's Financial Management**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the City Hall, 1803 Hill Avenue, Spirit Lake, Iowa 51360.

## BASIC FINANCIAL STATEMENTS



CITY OF SPIRIT LAKE  
STATEMENT OF NET ASSETS  
JUNE 30, 2008

	Governmental Activities	Business Type Activities	<u>Total</u>
<b>ASSETS</b>			
Cash and pooled investments .....	\$ 2,366,933	\$ 2,089,837	\$ 4,456,770
Receivables - net, where applicable, of allowances for uncollectibles:			
Property tax:			
Delinquent .....	17,300		17,300
Succeeding year .....	1,908,100		1,908,100
Tax increment financing:			
Delinquent .....	16,118		16,118
Succeeding year .....	2,258,118		2,258,118
Accounts and unbilled usage .....	14,644	279,880	294,524
Special assessments - current portion .....		1,662	1,662
Accrued interest .....	2,786	1,877	4,663
Economic development loans .....	139,137		139,137
Due from other governments .....	166,375	1,332	167,707
Inventories .....	17,086	33,016	50,102
Prepaid expenses .....	25,192	24,398	49,590
Restricted assets:			
Cash and pooled investments .....		41,297	41,297
Special assessments - net of current portion .....		3,328	3,328
Loan fees - net of accumulated amortization .....		53,390	53,390
Capital assets - net of accumulated depreciation ....	<u>37,299,269</u>	<u>13,762,247</u>	<u>51,061,516</u>
<b>TOTAL ASSETS</b>	<u><b>\$44,231,058</b></u>	<u><b>\$16,292,264</b></u>	<u><b>\$60,523,322</b></u>

CITY OF SPIRIT LAKE  
STATEMENT OF NET ASSETS - Continued  
JUNE 30, 2008

	Governmental Activities	Business Type Activities	Total
<b>LIABILITIES</b>			
Accounts payable .....	\$ 2,669,153	\$ 54,516	\$ 2,723,669
Retainages payable .....	188,432	25,777	214,209
Due to other governments .....		13,675	13,675
Medical claims payable .....	3,911	3,781	7,692
Salaries payable .....	50,611	26,865	77,476
Accrued interest payable .....	85,843	15,390	101,233
Deferred revenues:			
Succeeding year property tax .....	1,908,100		1,908,100
Succeeding year tax increment financing .....	2,258,118		2,258,118
Long-term liabilities:			
Portion of payable due within one year:			
Customer deposits .....		21,235	21,235
Compensated absences .....	55,707	39,650	95,357
General obligation bonds .....	1,370,000	130,000	1,500,000
Revenue bond .....		150,000	150,000
Portion of payable due after one year:			
General obligation bonds .....	23,164,192	2,541,830	25,706,022
Revenue bond .....	<u>                    </u>	<u>2,642,000</u>	<u>2,642,000</u>
 TOTAL LIABILITIES	 <u>31,754,067</u>	 <u>5,664,719</u>	 <u>37,418,786</u>
<b>NET ASSETS</b>			
Invested in capital assets - net of related debt .....	12,803,378	7,632,703	20,436,081
Restricted for:			
Debt service .....	(57,258)	20,062	(37,196)
Economic development loans .....	139,137		139,137
Special revenue purposes .....	1,173,068		1,173,068
Unrestricted .....	<u>(1,581,334)</u>	<u>2,974,780</u>	<u>1,393,446</u>
 TOTAL NET ASSETS	 <u>\$12,476,991</u>	 <u>\$10,627,545</u>	 <u>\$23,104,536</u>

CITY OF SPIRIT LAKE  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2008

		Program Revenues		
		Charges for	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions, and Restricted Interest
	<u>Expenses</u>	<u>Services</u>	<u>Interest</u>	<u>Interest</u>
FUNCTIONS/PROGRAMS:				
GOVERNMENTAL ACTIVITIES:				
Public safety .....	\$ 956,214	\$ 96,057	\$ 28,691	
Public works .....	1,472,552		366,317	
Culture and recreation .....	600,298	4,956	56,500	\$ 6,734
Community and economic development ...	162,026		32,009	
General government .....	368,387			
Interest and fees on long-term debt .....	<u>1,066,343</u>		<u>201</u>	
TOTAL GOVERNMENTAL ACTIVITIES	<u>4,625,820</u>	<u>101,013</u>	<u>483,718</u>	<u>6,734</u>
BUSINESS TYPE ACTIVITIES:				
Water .....	1,418,898	1,560,301	7,512	
Sewer .....	198,978	286,373	7	
Solid waste .....	<u>711,444</u>	<u>842,133</u>	<u>1,936</u>	
TOTAL BUSINESS TYPE ACTIVITIES	<u>2,329,320</u>	<u>2,688,807</u>	<u>9,455</u>	
 TOTAL	 <u>\$6,955,140</u>	 <u>\$2,789,820</u>	 <u>\$493,173</u>	 <u>\$ 6,734</u>

GENERAL REVENUES:

Property and other city taxes levied for:
General purposes .....
Tax increment financing .....
Local option sales tax .....
Unrestricted investment earnings .....
Unrestricted miscellaneous .....
Gain (loss) on sale of capital assets .....
Operating transfers .....
TOTAL GENERAL REVENUES

CHANGE IN NET ASSETS .....

NET ASSETS - BEGINNING OF YEAR .....

NET ASSETS - END OF YEAR

# Exhibit B

## Net (Expense) Revenue and Changes in Net Assets

<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
\$ (831,466)		\$ (831,466)
(1,106,235)		(1,106,235)
(532,108)		(532,108)
(130,017)		(130,017)
(368,387)		(368,387)
<u>(1,066,142)</u>		<u>(1,066,142)</u>
<u>(4,034,355)</u>		<u>(4,034,355)</u>
	\$ 148,915	148,915
	87,402	87,402
	<u>132,625</u>	<u>132,625</u>
	<u>368,942</u>	<u>368,942</u>
<u>(4,034,355)</u>	<u>368,942</u>	<u>(3,665,413)</u>
1,512,556		1,512,556
2,848,645		2,848,645
754,080		754,080
80,067	46,208	126,275
30,755		30,755
8,677	(1,587)	7,090
<u>(23,832)</u>	<u>23,832</u>	
<u>5,210,948</u>	<u>68,453</u>	<u>5,279,401</u>
1,176,593	437,395	1,613,988
<u>11,300,398</u>	<u>10,190,150</u>	<u>21,490,548</u>
<u>\$12,476,991</u>	<u>\$10,627,545</u>	<u>\$23,104,536</u>

CITY OF SPIRIT LAKE  
BALANCE SHEET - GOVERNMENTAL FUNDS  
JUNE 30, 2008

ASSETS

	<u>General</u>	<u>Local Option Sales Tax</u>	<u>Tax Increment Financing</u>
ASSETS:			
Cash and pooled investments .....	\$ 334,355		\$ 938,097
Receivables - net, where applicable, of allowance for uncollectibles:			
Property tax:			
Delinquent .....	13,203		
Succeeding year .....	1,493,185		
Tax increment financing:			
Delinquent .....			16,118
Succeeding year .....			2,258,118
Accounts .....	14,644		
Accrued interest .....	224	\$ 75	1,437
Economic development loans .....	139,137		
Due from other governments .....	3,666	133,393	
Inventories .....	17,086		
Prepaid expenses .....	<u>25,192</u>	<u>          </u>	<u>          </u>
 TOTAL ASSETS	 <u>\$2,040,692</u>	 <u>\$ 133,468</u>	 <u>\$3,213,770</u>

LIABILITIES AND FUND EQUITY

LIABILITIES:			
Accounts payable .....	\$ 125,011		
Retainages payable .....			
Salaries payable .....	44,308		
Deferred revenue:			
Succeeding year property tax .....	1,493,185		
Succeeding year tax increment financing .....			\$2,258,118
TOTAL LIABILITIES	<u>1,662,504</u>	<u>          </u>	<u>2,258,118</u>
 FUND BALANCES:			
Reserved for debt service .....			
Reserved for economic development loans .....	139,137		
Unreserved:			
Designated for economic development .....	261,225		
Undesignated reported in:			
General fund .....	(22,174)		
Special revenue funds .....		\$ 133,468	955,652
Capital projects funds .....			
TOTAL FUND BALANCES	<u>378,188</u>	<u>133,468</u>	<u>955,652</u>
 TOTAL LIABILITIES AND FUND BALANCES	 <u>\$2,040,692</u>	 <u>\$ 133,468</u>	 <u>\$3,213,770</u>

# EXHIBIT C

<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Nonmajor Governmental Funds</u>	<u>Total</u>
\$ 28,585	\$ 686,686	\$ 85,321	\$2,073,044
		4,097	17,300
		414,915	1,908,100
			16,118
			2,258,118
			14,644
	673	33	2,442
			139,137
		29,316	166,375
			17,086
			25,192
<u>\$ 28,585</u>	<u>\$ 687,359</u>	<u>\$533,682</u>	<u>\$6,637,556</u>
	\$2,515,626	\$ 28,516	\$2,669,153
	188,432		188,432
		6,303	50,611
		414,915	1,908,100
			2,258,118
	<u>2,704,058</u>	<u>449,734</u>	<u>7,074,414</u>
\$ 28,585			28,585
			139,137
			261,225
			(22,174)
		83,948	1,173,068
	(2,016,699)		(2,016,699)
<u>28,585</u>	<u>(2,016,699)</u>	<u>83,948</u>	<u>(436,858)</u>
<u>\$ 28,585</u>	<u>\$ 687,359</u>	<u>\$533,682</u>	<u>\$6,637,556</u>

CITY OF SPIRIT LAKE  
 RECONCILIATION OF THE BALANCE SHEET -  
 GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS  
 JUNE 30, 2008

TOTAL GOVERNMENTAL FUND BALANCES PER EXHIBIT C ..... \$ (436,858)

AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN THE  
 STATEMENT OF NET ASSETS ARE DIFFERENT BECAUSE:

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds. The cost of the assets is \$43,458,857 and the accumulated depreciation is \$6,159,588. .... 37,299,269

The internal service funds are used by the City to charge the cost of partial self funding the City's health insurance benefit plan to the individual funds and to fund future equipment purchases. A portion of the assets and liabilities of the internal service funds is included in governmental activities in the Statement of Net Assets. .... 290,322

Long-term liabilities, including bonds and other long-term debt payable, compensated absences, and accrued interest payable, are not due and payable within the current period and, therefore, are not reported as liabilities in the funds. (24,675,742)

NET ASSETS OF GOVERNMENTAL ACTIVITIES PER EXHIBIT A \$12,476,991

CITY OF SPIRIT LAKE  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2008

	<u>General</u>	<u>Local Option Sales Tax</u>	<u>Tax Increment Financing</u>
REVENUES:			
Property tax .....	\$ 977,409		
Tax increment financing .....			\$2,848,645
Other city taxes .....	206,987	\$ 754,080	
Licenses and permits .....	49,870		
Use of money and property .....	6,267	6,318	23,011
Intergovernmental .....	61,101		
Charges for services .....	13,448		
Miscellaneous .....	<u>103,782</u>		
TOTAL REVENUES	<u>1,418,864</u>	<u>760,398</u>	<u>2,871,656</u>
EXPENDITURES:			
Public safety .....	799,993		
Public works .....	314,598		
Culture and recreation .....	331,624	120,000	
Community and economic development .....	112,026		50,000
General government .....	295,300		8,893
Debt service .....			
Capital projects .....			
TOTAL EXPENDITURES	<u>1,853,541</u>	<u>120,000</u>	<u>58,893</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(434,677)</u>	<u>640,398</u>	<u>2,812,763</u>
OTHER FINANCING SOURCES (USES):			
Operating transfers in .....	394,802		
Operating transfers out .....	(96,137)	(926,843)	(2,063,719)
Sale of fixed assets .....	137,653		152,786
Bond proceeds .....			8,893
Bond discount .....			
TOTAL OTHER FINANCING SOURCES (USES)	<u>436,318</u>	<u>(926,843)</u>	<u>(1,902,040)</u>
NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS	1,641	(286,445)	910,723
FUND BALANCES - BEGINNING OF YEAR .....	383,699	419,913	44,929
NET DECREASE IN RESERVES FOR PREPAID EXPENSES AND INVENTORY OF SUPPLIES .....	<u>(7,152)</u>		
FUND BALANCES - END OF YEAR	<u>\$ 378,188</u>	<u>\$ 133,468</u>	<u>\$ 955,652</u>



## EXHIBIT E

<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Nonmajor Governmental Funds</u>	<u>Total</u>
		\$ 310,288	\$1,287,697
			2,848,645
		17,872	978,939
			49,870
\$ 39,116	\$ 47,274	1,112	123,098
		371,404	432,505
			13,448
<u>200</u>		<u>15,790</u>	<u>119,772</u>
<u>39,316</u>	<u>47,274</u>	<u>716,466</u>	<u>5,853,974</u>
		152,656	952,649
		438,696	753,294
		84,423	536,047
			162,026
		49,740	353,933
2,157,365			2,157,365
	<u>2,490,718</u>		<u>2,490,718</u>
<u>2,157,365</u>	<u>2,490,718</u>	<u>725,515</u>	<u>7,406,032</u>
<u>(2,118,049)</u>	<u>(2,443,444)</u>	<u>(9,049)</u>	<u>(1,552,058)</u>
2,155,782	420,588	56,367	3,027,539
(27,582)		(33,227)	(3,147,508)
	5,327,207		290,439
	(80,850)		5,336,100
			(80,850)
<u>2,128,200</u>	<u>5,666,945</u>	<u>23,140</u>	<u>5,425,720</u>
10,151	3,223,501	14,091	3,873,662
18,434	(5,240,200)	69,857	(4,303,368)
			(7,152)
<u>\$ 28,585</u>	<u>\$(2,016,699)</u>	<u>\$ 83,948</u>	<u>\$ (436,858)</u>

CITY OF SPIRIT LAKE  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
 AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO  
 THE STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED JUNE 30, 2008

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS PER EXHIBIT E .....	\$3,873,662
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AMOUNTS REPORTED FOR GOVERNMENTAL ACTIVITIES IN  
 THE STATEMENT OF ACTIVITIES ARE DIFFERENT BECAUSE:

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. Capital expenditures exceeded depreciation expense for the year, as follows:

Expenditures for capital assets .....	\$2,535,491	
Deletions - net .....	(281,762)	
Depreciation expense .....	<u>(839,443)</u>	1,414,286

Prepaid expenses and inventory are not available to pay current period expenses and, therefore, are deferred in the funds. The change in prepaid expenses and inventory results in differences between the statements, as follows:

Inventories - end of year .....	17,086	
Prepaid expenses - end of year .....	25,192	
Inventories - beginning of year .....	(26,463)	
Prepaid expenses - beginning of year .....	<u>(22,967)</u>	(7,152)

Proceeds from issuing long-term liabilities provide current financial resources to the governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year new issues exceeded repayments, as follows:

New issues (net of water and sewer portion) .....	(5,336,100)	
Bond discount on new issues .....	80,850	
Amortization of bond discount.....	(13,798)	
Repayments .....	<u>1,085,000</u>	(4,184,048)

CITY OF SPIRIT LAKE  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
 AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO  
 THE STATEMENT OF ACTIVITIES - Continued  
 FOR THE YEAR ENDED JUNE 30, 2008

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditure in governmental funds. The change in these accrued expenses results in differences between the statements, as follows:

Compensated absences - end of year .....	\$ (55,707)	
Accrued interest payable - end of year .....	(85,843)	
Compensated absences - beginning of year .....	57,457	
Accrued interest payable - beginning of year .....	<u>66,547</u>	\$ (17,546)

The internal service funds are used by the City to charge the cost of partial self funding the City's health insurance benefit plan to the individual funds and to fund future equipment purchases. A portion of the change in net assets of the internal services funds is reported with governmental activities. ....

97,391

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES  
 PER EXHIBIT B

\$1,176,593

CITY OF SPIRIT LAKE  
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS  
JUNE 30, 2008

ASSETS				
Enterprise Funds				
	Water	Sewer	Solid Waste	Total
ASSETS				
Cash and pooled investments .....	\$ 267,485	\$ 623,013	\$ 911,166	\$ 1,801,664
Receivables - net of allowance for uncollectibles:				
Accounts and unbilled usage .....	205,668	42,322	31,890	279,880
Special assessments - current portion ....		1,662		1,662
Accrued interest .....	482	604	791	1,877
Due from other governments .....	567		765	1,332
Inventories .....	21,532		11,484	33,016
Prepaid expenses .....	18,844	1,042	4,512	24,398
Restricted assets:				
Customer deposits - cash .....	21,235			21,235
Revenue note sinking fund - cash .....	20,062			20,062
Special assessments - net of current portion		3,328		3,328
Loan fees - net of accumulated amortization	53,390			53,390
Capital assets - net of accumulated depreciation .....	<u>9,775,464</u>	<u>3,429,880</u>	<u>556,903</u>	<u>13,762,247</u>
TOTAL ASSETS	<u>10,384,729</u>	<u>4,101,851</u>	<u>1,517,511</u>	<u>16,004,091</u>
LIABILITIES:				
Accounts payable .....	20,855	3,457	30,204	54,516
Medical claims payable .....				
Retainages payable .....	3,800	21,977		25,777
Due to other governments .....	13,675			13,675
Salaries payable .....	16,877	2,883	7,105	26,865
Accrued interest payable .....	13,168	2,222		15,390
Long-term liabilities:				
Portion of payable due within one year:				
Customer deposits .....	21,235			21,235
Compensated absences .....	33,235	1,440	4,975	39,650
General obligation bonds payable .....	110,000	20,000		130,000
Revenue notes payable .....	150,000			150,000
Portion of payable due after one year:				
Revenue notes payable .....	2,642,000			2,642,000
General obligation bonds payable - net of unamortized bond discount .....	<u>1,960,485</u>	<u>581,345</u>		<u>2,541,830</u>
TOTAL LIABILITIES	<u>4,985,330</u>	<u>633,324</u>	<u>42,284</u>	<u>5,660,938</u>
NET ASSETS:				
Invested in capital assets - net of related debt .....	4,528,312	2,547,488	556,903	7,632,703
Restricted for revenue note retirement .....	20,062			20,062
Unrestricted .....	<u>851,025</u>	<u>921,039</u>	<u>918,324</u>	<u>2,690,388</u>
TOTAL NET ASSETS	<u>\$ 5,399,399</u>	<u>\$3,468,527</u>	<u>\$1,475,227</u>	<u>\$10,343,153</u>

# EXHIBIT G

Internal Service Funds		
<u>Self-Insurance</u>	<u>Equipment Revolving</u>	<u>Total</u>
\$111,909	\$470,153	\$582,062
	344	344
<u>111,909</u>	<u>470,497</u>	<u>582,406</u>
7,692		7,692
<u>7,692</u>	<u>      </u>	<u>7,692</u>
<u>104,217</u>	<u>470,497</u>	<u>574,714</u>
<u>\$104,217</u>	<u>\$470,497</u>	<u>\$574,714</u>

CITY OF SPIRIT LAKE  
RECONCILIATION OF STATEMENT OF NET ASSETS - PROPRIETARY FUNDS TO  
THE STATEMENT OF NET ASSETS  
JUNE 30, 2008

TOTAL NET ASSETS - ENTERPRISE FUNDS PER EXHIBIT G ..... \$10,343,153

AMOUNTS REPORTED FOR BUSINESS TYPE ACTIVITIES IN THE  
STATEMENT OF NET ASSETS ARE DIFFERENT BECAUSE:

The internal service funds are used by the City to charge the cost of partial self funding the City's health insurance benefit plan to the individual funds and to fund future equipment purchases. A portion of the assets and liabilities of the internal service funds is included in business type activities in the Statement of Net Assets. 284,392

TOTAL NET ASSETS - BUSINESS TYPE ACTIVITIES PER EXHIBIT A \$10,627,545

CITY OF SPIRIT LAKE  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS -  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2008

	Enterprise Funds			
	<u>Water</u>	<u>Sewer</u>	<u>Solid Waste</u>	<u>Total</u>
OPERATING REVENUES:				
Charges for services .....	\$1,560,301	\$286,373	\$ 842,133	\$ 2,688,807
Reimbursements from operating funds .....				
Miscellaneous .....	<u>1,512</u>	<u>7</u>	<u>1,936</u>	<u>3,455</u>
TOTAL OPERATING REVENUES	<u>1,561,813</u>	<u>286,380</u>	<u>844,069</u>	<u>2,692,262</u>
OPERATING EXPENSES:				
Business type activities:				
Cost of sales and services .....	1,038,387	98,746	651,822	1,788,955
Depreciation .....	<u>217,141</u>	<u>72,857</u>	<u>59,263</u>	<u>349,261</u>
Insurance charges and claims .....				
TOTAL OPERATING EXPENSES	<u>1,255,528</u>	<u>171,603</u>	<u>711,085</u>	<u>2,138,216</u>
OPERATING INCOME (LOSS)	<u>306,285</u>	<u>114,777</u>	<u>132,984</u>	<u>554,046</u>
NON-OPERATING REVENUES (EXPENSES):				
Interest income .....	10,979	14,915	17,637	43,531
Lease income .....	6,000			6,000
Loss on sale of equipment .....	(528)	(529)	(530)	(1,587)
Amortization of loan fees .....	<u>(2,484)</u>			<u>(2,484)</u>
Interest expense and loan service fees:				
General obligation bonds .....	(64,815)	(27,305)		(92,120)
Revenue notes .....	<u>(95,089)</u>			<u>(95,089)</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>(145,937)</u>	<u>(12,919)</u>	<u>17,107</u>	<u>(141,749)</u>
NET INCOME (LOSS) BEFORE TRANSFERS	<u>160,348</u>	<u>101,858</u>	<u>150,091</u>	<u>412,297</u>
Operating transfers in .....	27,582			27,582
Operating transfers out .....	<u>(42,250)</u>	<u>(30,375)</u>	<u>(1,125)</u>	<u>(73,750)</u>
TOTAL TRANSFERS - NET	<u>(14,668)</u>	<u>(30,375)</u>	<u>(1,125)</u>	<u>(46,168)</u>
CHANGE IN NET ASSETS	145,680	71,483	148,966	366,129
NET ASSETS - BEGINNING OF YEAR .....	<u>5,253,719</u>	<u>3,397,044</u>	<u>1,326,261</u>	<u>9,977,024</u>
NET ASSETS - END OF YEAR	<u>\$5,399,399</u>	<u>\$3,468,527</u>	<u>\$1,475,227</u>	<u>\$10,343,153</u>

# EXHIBIT I

<u>Internal Service Funds</u>		
<u>Self-Insurance</u>	<u>Equipment Revolving</u>	<u>Total</u>
\$ 37,800		\$ 37,800
<u>1,069</u>	<u>          </u>	<u>1,069</u>
<u>38,869</u>	<u>          </u>	<u>38,869</u>
<u>41,734</u>	<u>          </u>	<u>41,734</u>
<u>41,734</u>	<u>          </u>	<u>41,734</u>
<u>(2,865)</u>	<u>          </u>	<u>(2,865)</u>
	\$ 5,385	5,385
<u>          </u>	<u>          </u>	<u>          </u>
<u>          </u>	<u>5,385</u>	<u>5,385</u>
<u>(2,865)</u>	<u>5,385</u>	<u>2,520</u>
	166,137	166,137
<u>          </u>	<u>166,137</u>	<u>166,137</u>
<u>          </u>	<u>          </u>	<u>          </u>
(2,865)	171,522	168,657
<u>107,082</u>	<u>298,975</u>	<u>406,057</u>
<u>\$104,217</u>	<u>\$470,497</u>	<u>\$574,714</u>



CITY OF SPIRIT LAKE  
 RECONCILIATION OF STATEMENT OF REVENUE, EXPENSES, AND CHANGES IN  
 NET ASSETS - PROPRIETARY FUNDS TO THE STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED JUNE 30, 2008

TOTAL CHANGE IN NET ASSETS - ENTERPRISE FUNDS PER EXHIBIT I ..... \$ 366,129

AMOUNTS REPORTED FOR BUSINESS TYPE ACTIVITIES IN THE  
 STATEMENT OF ACTIVITIES ARE DIFFERENT BECAUSE:

The internal service funds are used by the City to charge the cost of partial self  
 funding the City's health insurance benefit plan to the individual funds and to fund  
 future equipment purchases. A portion of the change in net assets of the internal  
 service funds is reported with business type activities..... 71,266

CHANGE IN NET ASSETS OF BUSINESS TYPE ACTIVITIES PER EXHIBIT B \$ 437,395

CITY OF SPIRIT LAKE  
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2008

	Enterprise Funds			
	<u>Water</u>	<u>Sewer</u>	<u>Solid Waste</u>	<u>Total</u>
CASH FLOWS FROM				
OPERATING ACTIVITIES:				
Cash received from customers .....	\$1,654,751	\$ 281,027	\$ 857,963	\$2,793,741
Other operating receipts .....	30,291	7	1,683	31,981
Cash payments from operating funds .....				
Cash payments to employees for services .....	(510,896)	(45,916)	(186,976)	(743,788)
Cash payments for goods and services ....	(677,505)	(51,201)	(461,330)	(1,190,036)
NET CASH PROVIDED BY				
OPERATING ACTIVITIES	<u>496,641</u>	<u>183,917</u>	<u>211,340</u>	<u>891,898</u>
CASH FLOWS FROM NONCAPITAL				
FINANCING ACTIVITIES:				
Operating transfers in .....				
Operating transfers out .....	(79,521)	(57,222)	(1,125)	(137,868)
NET CASH PROVIDED BY				
(USED FOR) NONCAPITAL				
FINANCING ACTIVITIES	<u>(79,521)</u>	<u>(57,222)</u>	<u>(1,125)</u>	<u>(137,868)</u>
CASH FLOWS FROM CAPITAL AND				
RELATED FINANCING ACTIVITIES:				
Acquisition of fixed assets .....	(779,835)	(685,219)	(26,229)	(1,491,283)
General obligation bond proceeds .....	269,065			269,065
Special assessments received .....		1,662		1,662
Proceeds from sale of fixed assets .....	10,088	10,088	10,087	30,263
Principal paid on revenue notes .....	(146,000)			(146,000)
Interest and loan service fees paid				
on revenue notes .....	(95,485)			(95,485)
NET CASH (USED FOR)				
CAPITAL AND RELATED				
FINANCING ACTIVITIES	<u>(742,167)</u>	<u>(673,469)</u>	<u>(16,142)</u>	<u>(1,431,778)</u>
CASH FLOWS FROM INVESTING				
ACTIVITIES:				
Interest on investments .....	10,775	13,891	17,200	41,866
Interest on special assessments .....		676		676
Lease income .....	6,000			6,000
NET CASH PROVIDED BY				
INVESTING ACTIVITIES	<u>16,775</u>	<u>14,567</u>	<u>17,200</u>	<u>48,542</u>
NET INCREASE (DECREASE) IN CASH				
AND CASH EQUIVALENTS	(308,272)	(532,207)	211,273	(629,206)
CASH AND CASH EQUIVALENTS -				
BEGINNING OF YEAR .....	<u>617,054</u>	<u>1,155,220</u>	<u>699,893</u>	<u>2,472,167</u>
CASH AND CASH EQUIVALENTS -				
END OF YEAR	<u>\$ 308,782</u>	<u>\$ 623,013</u>	<u>\$ 911,166</u>	<u>\$1,842,961</u>

# EXHIBIT K

Internal Service Funds		
<u>Self-Insurance</u>	<u>Equipment Revolving</u>	<u>Total</u>
\$ 1,069		\$ 1,069
37,800		37,800
<u>(34,042)</u>	<u>          </u>	<u>(34,042)</u>
<u>4,827</u>	<u>          </u>	<u>4,827</u>
	\$166,137	166,137
<u>          </u>	<u>          </u>	<u>          </u>
	<u>166,137</u>	<u>166,137</u>
<u>          </u>	<u>          </u>	<u>          </u>
<u>          </u>	<u>          </u>	<u>          </u>
	5,620	5,620
<u>          </u>	<u>          </u>	<u>          </u>
<u>          </u>	<u>5,620</u>	<u>5,620</u>
4,827	171,757	176,584
<u>107,082</u>	<u>298,396</u>	<u>405,478</u>
<u>\$111,909</u>	<u>\$470,153</u>	<u>\$582,062</u>

CITY OF SPIRIT LAKE  
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS - Continued  
FOR THE YEAR ENDED JUNE 30, 2008

	Enterprise Funds			
	<u>Water</u>	<u>Sewer</u>	<u>Solid Waste</u>	<u>Total</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
OPERATING INCOME (LOSS) .....	<u>\$306,285</u>	<u>\$114,777</u>	<u>\$132,984</u>	<u>\$ 554,046</u>
ADJUSTMENTS TO RECONCILE OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:				
Depreciation .....	217,141	72,857	59,263	349,261
Changes in assets and liabilities:				
(Increase) decrease in accounts receivable and unbilled usage .....	6,524	(5,346)	15,830	17,008
(Increase) in due from other governments .....	(33)		(254)	(287)
Decrease in inventories .....	4,671		12,681	17,352
(Increase) in prepaid expenses .....	(1,664)	(92)	(398)	(2,154)
Increase (decrease) in accounts payable .....	(20,243)	731	(5,205)	(24,717)
Increase in medical claims payable .....				
(Decrease) in due to other governments .....	(155)			(155)
Increase (decrease) in salaries payable .....	(11,294)	520	(637)	(11,411)
(Decrease) in customer deposits .....	(50)			(50)
Increase (decrease) in compensated absences .....	(4,541)	470	(2,924)	(6,995)
TOTAL ADJUSTMENTS	<u>190,356</u>	<u>69,140</u>	<u>78,356</u>	<u>337,852</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$496,641</u>	<u>\$183,917</u>	<u>\$211,340</u>	<u>\$ 891,898</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON THE STATEMENT OF NET ASSETS				
Cash and pooled investments .....	\$267,485	\$623,013	\$911,166	\$1,801,664
Restricted assets - cash:				
Customer deposits .....	21,235			21,235
Revenue note sinking fund .....	<u>20,062</u>			<u>20,062</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$308,782</u>	<u>\$623,013</u>	<u>\$911,166</u>	<u>\$1,842,961</u>

# EXHIBIT K

Internal Service Funds		
<u>Self-Insurance</u>	<u>Equipment Revolving</u>	<u>Total</u>
<u>\$ (2,865)</u>	<u>          </u>	<u>\$ (2,865)</u>
7,692		7,692
<u>7,692</u>	<u>          </u>	<u>7,692</u>
<u>\$ 4,827</u>	<u>\$       </u>	<u>\$ 4,827</u>
\$111,909	\$470,153	\$582,062
<u>          </u>	<u>          </u>	<u>          </u>
<u>\$111,909</u>	<u>\$470,153</u>	<u>\$582,062</u>

CITY OF SPIRIT LAKE  
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS - Continued  
FOR THE YEAR ENDED JUNE 30, 2008

SUPPLEMENTAL CASH FLOW INFORMATION - GENERAL OBLIGATION BONDS PAYABLE

Principal and interest payments on the water and sewer portion of the general obligation bonds payable is paid by the debt service fund. A portion of those payments were transferred from the water and sewer funds to the debt service fund and is included in cash flows from noncapital financing activities - operating transfers out.

A summary of the interest and principal payments paid on the water and sewer portion of the general obligation bonds payable is as follows:

	<u>Water</u>	<u>Sewer</u>	<u>Total</u>
Interest paid by the debt service fund:			
Transferred to debt service .....	\$ 36,271	\$ 26,847	\$ 63,118
Not transferred to debt service .....	<u>27,582</u>	<u>          </u>	<u>27,582</u>
Total interest paid by the debt service fund	<u>\$ 63,853</u>	<u>\$ 26,847</u>	<u>\$ 90,700</u>
Principal paid by the debt service fund:			
Transferred to debt service .....	<u>\$ 1,000</u>	<u>          </u>	<u>\$ 1,000</u>

CITY OF SPIRIT LAKE  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Spirit Lake, Iowa is a political subdivision of the State of Iowa located in Dickinson County. It was first incorporated in 1879 and operates under the Home Rule provisions of the constitution of Iowa. The City operates under the Mayor-Council-Clerk/Administrator form of government with the Mayor and Council Members elected on a non-partisan basis. The City of Spirit Lake provides numerous services to citizens, including general government, public safety, streets, sanitation and health, cultural and park facilities and social services. It also operates the water, sewer, and solid waste utilities.

The financial statements of the City of Spirit Lake have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below:

**A. Reporting Entity**

For financial reporting purposes, the City has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City. It was determined that the City has no component units.

Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Drainage District #22, Spirit Lake Community Fire Department, Dickinson County Airport Authority, Dickinson County Emergency Management Commission, Dickinson County E911 Service Board, Dickinson County Assessor's Conference Board, and various other organizations.

**B. Basis of Presentation**

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are supported by property tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Net Assets presents the City's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction, or improvement of those assets.

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation. Additionally, the City has reported economic development loans as restricted net assets.

*Unrestricted net assets* consist of net assets not meeting the definition of the two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and (2) grants and contributions restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental and proprietary funds. Major individual governmental and proprietary funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

*The General Fund* is the general operating fund of the City. All general tax revenues and other revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, the fixed charges, and the capital improvement costs not paid from other funds.

*Special Revenue:*

*The Tax Increment Financing Revenues Fund* is used to account for revenues from the tax authorized by ordinance in the urban renewal district and used to pay the principal and interest on the general obligation capital loan notes and other indebtedness incurred for urban renewal redevelopment projects.

*The Local Option Sales Tax Fund* - is used to account for the revenues from the tax authorized by referendum and used for property tax relief and capital improvements.

*The Debt Service Fund* is used to account for the payment of interest and principal on the City's general long-term debt.

*The Capital Projects Fund* is used to account for all resources used in the acquisition and construction of capital facilities.



The City reports the following major proprietary funds:

*Enterprise:*

*The Water Fund* is used to account for the operation and maintenance of the City's water system.

*The Sewer Fund* is used to account for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

*The Solid Waste Fund* is used to account for the operation and maintenance of the City's solid waste collection activities.

Additionally, the City reports the following funds:

*Proprietary Funds* - The Internal Service Funds are utilized to account for the financing of goods or services purchased by one department of the City and provided to other departments or agencies on a cost reimbursement basis.

**C. Measurement Focus and Basis of Accounting**

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days after year end.

Property tax, local option sales tax, intergovernmental revenues (shared revenues, grants, and reimbursements from other governments) and interest are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the City.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt are reported as other financing sources.

Under terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general revenues.

The proprietary funds of the City apply all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting

Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's Proprietary Funds are charges to customers for sales and services. Operating expenses for Proprietary Funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The City maintains its financial records on the cash basis. The financial statements of the City are prepared by making memorandum adjusting entries to the cash basis financial records.

#### **D. Assets, Liabilities and Fund Equity**

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments, and Cash Equivalents - The cash balances of most City funds are pooled and invested. Interest earned on investments is recorded in the General Fund unless otherwise provided by law. Investments consist of interest-bearing cash accounts and certificates of deposit.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid (including restricted assets) are considered to be cash equivalents.

Property Tax Receivable, Including Tax Increment Financing - Property tax, including tax increment financing, in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the City to the County Board of Supervisors. Current year property tax receivables represent taxes collected by the County but not remitted to the City at June 30, 2008 and unpaid taxes. The succeeding year property tax receivables represent taxes certified by the City to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the City is required to certify its budget to the County Auditor by March 15 of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivables have been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenues recognized in these funds become due and collectible in September and March of the current fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2006 assessed property valuations; is for the tax accrual period July 1, 2007 through June 30, 2008 and reflects tax asking contained in the budget certified to the County Board of Supervisors in March 2007.

Accounts and Unbilled Usage Receivable - Accounts receivable are recorded in the enterprise funds at the time the service is billed. Unbilled usage for service consumed between periodic scheduled billing dates is estimated and is recognized as revenue in the period in which the service is provided.

Special Assessments Receivable - Special assessments receivable represents the amounts due from individuals for work done which benefits their property. These assessments are payable by individuals in not less than ten nor more than twenty annual installments. Each annual installment with interest on the unpaid balance is due on September 30 and is subject to the same interest and penalties as other tax.

Due From Other Governments - Due from other governments represents various shared revenues, grants, and reimbursements due from the State of Iowa and other governments.

Inventories - Proprietary Fund inventories of materials and supplies are valued at cost, using the first-in, first-out (FIFO) method. Inventories in the governmental funds are stated at cost and are recorded as an expenditure at the time of purchase. Reported inventories in the governmental funds are equally offset by a fund balance reserve, which indicates they are unavailable for appropriation.

Prepaid Expenses - Prepaid expenses have been recorded for governmental and proprietary funds. Prepaid expenses in the governmental funds have been offset by a fund balance reserve to indicate they are unavailable for appropriation.

Restricted Assets - Funds set aside for payment of the water revenue capital loan notes are classified as restricted assets since their use is restricted by the applicable note indentures. Other restricted assets include customer deposits restricted for application to unpaid customer accounts or for refund to customers.

Capital Assets - Capital assets, which include property, equipment and vehicles and infrastructure assets (e.g. roads, bridges, curbs, gutters, sidewalks, and similar items which are immovable and of value only to the government) are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair that do not add to the value of the asset or materially extend asset lives are not capitalized. Reportable capital assets are defined by the City as assets with initial, individual costs in excess of \$5,000 and estimated useful lives in excess of four years.

Capital assets of the City are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives (In Years)</u>
Buildings	40 - 60 years
Improvements other than buildings	10 - 40 years
Vehicles	5 - 10 years
Equipment	5 - 20 years
Infrastructure	15 - 40 years

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collectible within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of delinquent property tax receivables, special assessments receivable, and other receivables not collected within sixty days after year end.

Deferred revenue in the Statement of Net Assets consists of succeeding year property tax and tax increment financing receivables that will not be recognized as revenue until the year for which they are levied.

Compensated Absences - City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, death, or retirement. A liability is recorded when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees that have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2008. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-term Liabilities - In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental or business type activities column in the Statement of Net Assets and the proprietary fund Statement of Net Assets.

In the governmental fund financial statements, the face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

## **2. CASH AND INVESTMENTS**

The City's demand deposits, savings accounts, and certificates of deposit at June 30, 2008 were entirely covered by Federal depository insurance or by a multiple financial institution collateral pool in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the members of the pool to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

### 3. ALLOWANCES FOR COLLECTION LOSSES

Allowances have been made for estimated collection losses on the following receivable amounts:

	Gross Receivables	Allowance for Collection Losses	Net Receivables
Accounts and unbilled usage:			
General Fund .....	\$ 17,956	\$ 3,312	\$ 14,644
Enterprise Funds:			
Water .....	207,712	2,044	205,668
Sewer .....	42,322		42,322
Solid waste .....	<u>36,193</u>	<u>4,303</u>	<u>31,890</u>
TOTAL	<u>\$304,183</u>	<u>\$ 9,659</u>	<u>\$294,524</u>

### 4. CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2008 was as follows:

	Balance Beginning of Year	Additions	Deletions	Transfers In (Out)	Balance End of Year
GOVERNMENTAL ACTIVITIES:					
COST OF CAPITAL ASSETS:					
Capital assets not being depreciated:					
Construction in progress .....	\$10,755,305	\$1,253,678			\$12,008,983
Land .....	<u>412,903</u>				<u>412,903</u>
Total capital assets not being depreciated	<u>11,168,208</u>	<u>1,253,678</u>			<u>12,421,886</u>
Capital assets being depreciated					
Buildings .....	1,477,935				1,477,935
Improvements .....	430,538	25,711			456,249
Equipment and vehicles .....	3,435,463	64,157	\$(640,082)		2,859,538
Infrastructure .....	<u>25,051,304</u>	<u>1,191,945</u>			<u>26,243,249</u>
Total capital assets being depreciated	<u>30,395,240</u>	<u>1,281,813</u>	<u>(640,082)</u>		<u>31,036,971</u>
TOTAL COST OF CAPITAL ASSETS	<u>41,563,448</u>	<u>2,535,491</u>	<u>(640,082)</u>		<u>43,458,857</u>
ACCUMULATED DEPRECIATION:					
Buildings .....	428,336	32,489			460,825
Improvements .....	275,555	10,225			285,780
Equipment and vehicles .....	1,391,220	270,581	(358,320)		1,303,481
Infrastructure .....	<u>3,583,354</u>	<u>526,148</u>			<u>4,109,502</u>
TOTAL ACCUMULATED DEPRECIATION	<u>5,678,465</u>	<u>839,443</u>	<u>(358,320)</u>		<u>6,159,588</u>
GOVERNMENTAL ACTIVITIES CAPITAL ASSETS - NET	<u>\$35,884,983</u>	<u>\$1,696,048</u>	<u>\$(281,762)</u>		<u>\$37,299,269</u>

	Balance Beginning of Year	Additions	Deletions	Transfers In (Out)	Balance End of Year
BUSINESS TYPE ACTIVITIES:					
COST OF CAPITAL ASSETS:					
Capital assets not being depreciated:					
Construction in progress ....	\$ 2,155,318	\$ 959,260			\$ 3,114,578
Land .....	96,859				96,859
Total capital assets not being depreciated	<u>2,252,177</u>	<u>959,260</u>			<u>3,211,437</u>
Capital assets being depreciated:					
Buildings .....	5,700,897				5,700,897
Improvements .....	113,651				113,651
Water towers .....	891,356				891,356
Equipment and vehicles .....	1,502,788	46,800	\$(42,000)		1,507,588
Infrastructure .....	<u>5,880,713</u>	<u>268,513</u>			<u>6,149,226</u>
Total capital assets being depreciated	<u>14,089,405</u>	<u>315,313</u>	<u>(42,000)</u>		<u>14,362,718</u>
TOTAL COST OF CAPITAL ASSETS	<u>16,341,582</u>	<u>1,274,573</u>	<u>(42,000)</u>		<u>17,574,155</u>
ACCUMULATED DEPRECIATION:					
Buildings .....	1,255,687	112,642			1,368,329
Improvements .....	97,269	1,696			98,965
Water towers .....	358,345	17,827			376,172
Equipment and vehicles .....	733,827	96,604	(10,150)		820,281
Infrastructure .....	<u>1,027,669</u>	<u>120,492</u>			<u>1,148,161</u>
TOTAL ACCUMULATED DEPRECIATION	<u>3,472,797</u>	<u>349,261</u>	<u>(10,150)</u>		<u>3,811,908</u>
BUSINESS TYPE CAPITAL ASSETS - NET	<u>\$12,868,785</u>	<u>\$ 925,312</u>	<u>\$(31,850)</u>		<u>\$13,762,247</u>
COST OF LOAN FEES .....	\$ 61,610				\$ 61,610
LESS: Accumulated amortization	<u>5,736</u>	<u>\$ 2,484</u>			<u>8,220</u>
LOAN FEES - NET	<u>\$ 55,874</u>	<u>\$ (2,484)</u>	<u>\$</u>	<u>\$</u>	<u>\$ 53,390</u>

Depreciation was charged to functions of the government as follows:

Governmental Activities:

Public safety .....	\$ 41,684
Public works .....	697,018
Culture and recreation .....	95,640
General government .....	<u>5,101</u>
Total Governmental Activities	<u>\$ 839,443</u>

Business Type Activities:

Water .....	\$ 217,141
Sewer .....	72,857
Solid waste .....	<u>59,263</u>
Total Business Type Activities	<u>\$ 349,261</u>

## 5. ECONOMIC DEVELOPMENT LOANS

The City has loaned money for economic development purposes. Following is a summary of those loans:

Forgivable loan to a local business. The loan is interest free and is forgivable ratably over 10 years if certain conditions are met. During the year ended June 30, 2008, the City forgave \$40,000 of this loan. ....	\$ 38,137
Forgivable loan to a local business. The loan is interest-free and forgivable ratably over five years if certain conditions are met. During the year ended June 30, 2008, the City forgave \$6,000 of this loan. ....	1,000
Iowa Nonentitlement Community Development Block Grant. Economic Development set aside loan to a local business. The loan is interest-free and is payable in quarterly installments of \$12,500 over the remaining two-year period. ....	<u>100,000</u>
TOTAL	<u>\$139,137</u>

## 6. LONG-TERM LIABILITIES

A summary of changes in long-term liabilities for the year ended June 30, 2008 is as follows:

	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount of Original Issue</u>	<u>Final Due Date</u>
GOVERNMENTAL ACTIVITIES:				
GENERAL OBLIGATION BONDS/NOTES:				
Taxable issue .....	9-01-99	7.30 - 7.50%	\$ 400,000	6-1-2011
General obligation urban renewal, Series 2001A .....	10-01-01	3.80 - 4.00%	4,000,000	6-1-2012
General obligation bonds, Series 2001B	10-01-01	4.10 - 4.40%	470,000	6-1-2012
General obligation refunding bonds ...	6-01-02	4.00 - 4.35%	3,060,000	6-1-2012
Essential corporate purpose .....	6-01-03	3.55 - 4.00%	4,200,000	6-1-2023
General obligation capital loan notes .	10-01-04	3.00 - 4.45%	2,280,000	6-1-2024
General obligation refunding bonds ...	4-01-05	2.90 - 3.35%	1,145,000	6-1-2012
General obligation annual appropriation bonds .....	8-01-05	3.50 - 4.35%	5,000,000	6-1-2025
General obligation urban renewal annual appropriation bonds .....	7-01-06	4.10 - 4.40%	4,300,000	6-1-2026
General obligation annual appropriation capital loan notes .....	6-11-07	4.40%	1,010,000	6-1-2018
General obligation bonds, Series 2007C (sewer) .....	6-01-07	4.25 - 4.60%	610,000	6-1-2027
General obligation capital loan note (water) .....	12-07-06	3.25%	2,071,485	6-1-2026
General obligation annual appropriation bonds .....	7-26-07	4.75%	5,390,000	6-1-2027
TOTAL				
Less reported in business-type activities:				
Water .....				
Sewer .....				
TOTAL GENERAL OBLIGATION BONDS/NOTES REPORTED IN GOVERNMENTAL ACTIVITIES				
Less unamortized bond discount .....				
NET GENERAL OBLIGATION BONDS/NOTES REPORTED IN GOVERNMENTAL ACTIVITIES				
COMPENSATED ABSENCES .....				
TOTAL GOVERNMENTAL ACTIVITIES				



<u>Balance Beginning of Year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance End of Year</u>	<u>Due Within One Year</u>
\$ 185,000		\$ 45,000	\$ 140,000	\$ 45,000
1,550,000		550,000	1,000,000	250,000
195,000		35,000	160,000	40,000
1,065,000		200,000	865,000	200,000
4,200,000			4,200,000	280,000
2,150,000		95,000	2,055,000	100,000
800,000		160,000	640,000	160,000
5,000,000			5,000,000	
4,300,000			4,300,000	
1,010,000			1,010,000	85,000
610,000			610,000	20,000
1,802,420	\$ 269,065	1,000	2,070,485	110,000
<u>53,900</u>	<u>5,336,100</u>	<u>          </u>	<u>5,390,000</u>	<u>210,000</u>
22,921,320	5,605,165	1,086,000	27,440,485	1,500,000
(1,802,420)	(269,065)	(1,000)	(2,070,485)	(110,000)
<u>(610,000)</u>	<u>          </u>	<u>          </u>	<u>(610,000)</u>	<u>(20,000)</u>
20,508,900	5,336,100	1,085,000	24,760,000	1,370,000
<u>(158,756)</u>	<u>(80,850)</u>	<u>(13,798)</u>	<u>(225,808)</u>	<u>          </u>
20,350,144	5,255,250	1,071,202	24,534,192	1,370,000
<u>57,457</u>	<u>          </u>	<u>1,750</u>	<u>55,707</u>	<u>55,707</u>
<u>\$20,407,601</u>	<u>\$5,255,250</u>	<u>\$1,072,952</u>	<u>\$24,589,899</u>	<u>\$1,425,707</u>

	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount of Original Issue</u>	<u>Final Due Date</u>
BUSINESS TYPE ACTIVITIES:				
WATER PORTION OF GENERAL OBLIGATION NOTES .....				
SEWER PORTION OF GENERAL OBLIGATION BONDS .....				
TOTAL GENERAL OBLIGATION BONDS/NOTES REPORTED IN BUSINESS-TYPE ACTIVITIES				
Less unamortized bond discount .....				
NET GENERAL OBLIGATION BONDS/NOTES REPORTED IN BUSINESS-TYPE ACTIVITIES				
REVENUE NOTES:				
Water revenue capital loan notes, Series 2003 .....	5-20-03	3.25%	\$3,501,000	6-1-2023
CUSTOMER DEPOSITS .....				
COMPENSATED ABSENCES .....				
TOTAL BUSINESS TYPE ACTIVITIES				

Balance Beginning of <u>Year</u>	<u>Increases</u>	<u>Decreases</u>	Balance End of <u>Year</u>	Due Within <u>One Year</u>
\$1,802,420	\$269,065	\$ 1,000	\$2,070,485	\$ 110,000
<u>610,000</u>	<u>          </u>	<u>          </u>	<u>610,000</u>	<u>20,000</u>
2,412,420	269,065	1,000	2,680,485	130,000
<u>(9,112)</u>	<u>          </u>	<u>(457)</u>	<u>(8,655)</u>	<u>          </u>
2,403,308	269,065	543	2,671,830	130,000
2,938,000		146,000	2,792,000	150,000
21,285		50	21,235	21,235
<u>46,645</u>	<u>          </u>	<u>6,995</u>	<u>39,650</u>	<u>39,650</u>
<u>\$5,409,238</u>	<u>\$269,065</u>	<u>\$ 153,588</u>	<u>\$5,524,715</u>	<u>\$ 340,885</u>

**General Obligation Bonds/Notes**

General obligation bonds/notes to be serviced by the Debt Service Fund totaled \$27,440,485 at June 30, 2008. The City issued \$4,800,000 of general obligation capital loan notes in June 2008. As of June 30, 2008, the City had not received any advances on these notes.

A majority of the general obligation bonds are anticipated to be repaid from tax increment financing revenues, local option sales tax funds, and the water and sewer enterprise funds. In compliance with statutory requirements, any payments from other funds are recorded as reimbursements to the Debt Service Fund in the City's accounting records. General obligation bonds/notes bear interest with rates ranging from 2.90% to 7.5%.

**Revenue Notes**

The City has pledged future water customer revenues, net of specific operating expenses, to repay the \$3,501,000 water revenue capital loan notes issued in May 2003. Proceeds from the notes provided financing for a water plant addition. The notes are payable solely from water customer net revenues and are payable through 2023. Annual principal and interest payments are expected to require less than 50% of net revenues. Total principal and interest remaining to be paid on the notes are \$3,567,775. For the current year, principal and interest paid and total customer net revenues were \$241,485 and \$523,426, respectively. The notes bear interest at 3.25% including a .25% loan service fee.

The resolution providing for the issuance of the water revenue capital loan notes include the following provisions:

- (A) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- (B) Sufficient monthly transfers shall be made into a separate water revenue sinking account for the purpose of making the principal and interest payments when due.
- (C) User rates shall be established at a level which produces and maintains net revenues at a level not less than 110% of the amount of principal and interest on the note falling due in the same year.

During the year ended June 30, 2008, the City is in compliance with the revenue note resolution.

A summary of the City's long-term debt maturities is as follows:

Year Ending June 30,	<u>Governmental Activities</u>			<u>Business-Type Activities</u>		
	<u>General Obligation Bonds/Notes</u>			<u>General Obligation Bonds/Notes</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 1,370,000	\$1,030,119	\$2,400,119	\$ 130,000	\$ 93,938	\$223,938
2010	1,380,000	976,399	2,356,399	130,000	89,513	219,513
2011	1,400,000	921,421	2,321,421	135,000	85,089	220,089
2012	1,580,000	864,201	2,444,201	26,000	80,451	106,451
2013	1,110,000	801,979	1,911,979	177,000	79,356	256,356
2014	1,100,000	758,771	1,858,771	177,000	73,353	250,353
2015	1,475,000	715,404	2,190,404	145,000	67,351	212,351
2016	1,490,000	656,379	2,146,379	150,000	62,388	212,388
2017	1,510,000	596,281	2,106,281	150,000	57,213	207,213
2018	1,530,000	534,671	2,064,671	150,000	52,038	202,038
2019	1,430,000	471,369	1,901,369	155,000	46,863	201,863
2020	1,450,000	411,829	1,861,829	155,000	41,459	196,459
2021	1,465,000	350,584	1,815,584	155,000	36,036	191,036
2022	1,475,000	287,861	1,762,861	160,000	30,613	190,613
2023	1,510,000	224,106	1,734,106	160,000	24,953	184,953
2024	1,250,000	158,197	1,408,197	160,000	19,293	179,293
2025	1,090,000	102,218	1,192,218	160,000	13,593	173,593
2026	745,000	53,145	798,145	160,485	7,893	168,378
2027	400,000	19,000	419,000	45,000	2,070	47,070
Total	<u>\$24,760,000</u>	<u>\$9,933,934</u>	<u>\$34,693,934</u>	<u>\$2,680,485</u>	<u>\$ 963,463</u>	<u>\$3,643,948</u>

Year Ending June 30,	<u>Business-Type Activities</u>					
	<u>Water Revenue Capital Loan Notes</u>			<u>Total Business-Type Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 150,000	\$ 90,740	\$ 240,740	\$ 280,000	\$ 184,678	\$ 464,678
2010	155,000	85,865	240,865	285,000	175,378	460,378
2011	159,000	80,827	239,827	294,000	165,916	459,916
2012	164,000	75,660	239,660	190,000	156,111	346,111
2013	169,000	70,330	239,330	346,000	149,686	495,686
2014	174,000	64,838	238,838	351,000	138,191	489,191
2015	179,000	59,182	238,182	324,000	126,533	450,533
2016	185,000	53,365	238,365	335,000	115,753	450,753
2017	190,000	47,353	237,353	340,000	104,566	444,566
2018	196,000	41,178	237,178	346,000	93,216	439,216
2019	202,000	34,807	236,807	357,000	81,670	438,670
2020	208,000	28,243	236,243	363,000	69,702	432,702
2021	214,000	21,483	235,483	369,000	57,519	426,519
2022	220,000	14,527	234,527	380,000	45,140	425,140
2023	227,000	7,377	234,377	387,000	32,330	419,330
2024				160,000	19,293	179,293
2025				160,000	13,593	173,593
2026				160,485	7,893	168,378
2027				45,000	2,070	47,070
Total	<u>\$ 2,792,000</u>	<u>\$ 775,775</u>	<u>\$ 3,567,775</u>	<u>\$5,472,485</u>	<u>\$1,739,238</u>	<u>\$7,211,723</u>

## 7. INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2008 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Local option sales tax	\$ 357,825
	Emergency	33,227
	Proprietary:	
	Enterprise:	
	Water	2,250
	Sewer	375
	Solid waste	1,125
		<u>394,802</u>
Special Revenue:	Special Revenue:	
Employee Benefits	Local option sales tax	<u>56,367</u>
Debt Service	Special Revenue:	
	Local option sales tax	266,006
	Tax increment financing	1,889,776
		<u>2,155,782</u>
Capital Projects	Special Revenue:	
	Local option sales tax	246,645
	Tax increment financing	173,943
		<u>420,588</u>
Proprietary:		
Enterprise:		
Water	Debt Service	<u>27,582</u>
Internal service:		
Equipment revolving	General	96,137
	Proprietary:	
	Enterprise:	
	Water	40,000
	Sewer	30,000
		<u>166,137</u>
TOTAL OPERATING TRANSFERS		<u>\$3,221,258</u>

## 8. PENSION AND RETIREMENT BENEFITS

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, IA 50306-9117.

Most regular plan members are required to contribute 3.90% of their annual salary and the City is required to contribute 6.05% of annual covered salaries. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by State statute. The City's contributions to IPERS for the years ended June 30, 2008, 2007, and 2006 were \$118,946, \$116,912, and \$112,427, respectively, equal to the required contributions for each year.

**9. OTHER EMPLOYEE BENEFITS**

All full-time City employees accumulate sick leave hours for subsequent use. Except for a portion that is paid annually, the accumulation of sick leave hours did not vest as of June 30, 2008, and therefore is not recognized as a liability until used by the employee or upon retirement or death. The City's approximate contingent liability for the unvested sick leave as of June 30, 2008 is as follows:

Governmental activities .....	\$213,491
Business type activities .....	<u>154,903</u>
 TOTAL	 <u>\$368,394</u>

**10. INDUSTRIAL DEVELOPMENT REVENUE BONDS**

The City has issued a total of \$1,000,000 of industrial development revenue bonds, of which \$600,095 is outstanding at June 30, 2008. The bonds and related interest are payable solely from the rents payable by tenants of the properties constructed, and the bond principal and interest do not constitute liabilities of the City.

**11. DEFICIT BALANCES**

The capital projects fund had a deficit balance of \$2,016,699 at June 30, 2008. The deficit is due to a large payable due to the Iowa Department of Transportation. When this payable becomes due, the City anticipates using bond proceeds or transfers from other funds to eliminate the deficit.

**12. COMMITMENTS**

The City has entered into several contracts for water plant expansion, paving, lighting, and sewer rehabilitation projects. A summary of the uncompleted projects is as follows:

Contract total .....	\$6,394,397
Completed at June 30, 2008 .....	<u>2,434,875</u>
 Uncompleted	 <u>\$3,959,522</u>

The City has committed funds to several nonprofit organizations, including \$100,000 per year for eight more years for a new YMCA. No contracts have been signed. The City will report the expenditures in the year payments are made.

The City has entered into an agreement to sell a building for \$138,600. The sale will close on September 1, 2008.

### **13. SUBSEQUENT EVENTS**

Subsequent to June 30, 2008, the City entered into three construction projects for paving, sanitary sewer rehabilitation, and parking lot projects totaling \$603,537.

The City also issued \$325,000 of general obligation capital loan notes during September 2008.

### **14. SIGNIFICANT GROUP CONCENTRATION OF CREDIT RISK**

In the course of selling water and sewer services, the City grants credit to customers, all of whom are local residents.

### **15. RISK MANAGEMENT**

Since January 1, 1989, the City has been a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 563 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each members' annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 200 percent of the total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as expenditures from its operating funds at the time of payment to the risk pool. The City's annual contributions to the Pool for the year ended June 30, 2008 were \$99,180.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$10,000,000 in aggregate per year. For members requiring specific coverage from \$3,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual-member basis.



The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. The City does not report a liability for losses in excess of reinsurance or excess risk-sharing recoveries unless it is deemed probable such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2008, no liability has been recorded in the City's financial statements. As of June 30, 2008, settled claims have not exceeded the risk pool or reinsurance coverage since the pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their casualty capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its casualty capital contributions. However, the refund is reduced by an amount equal to the annual casualty operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

The City has established a partial self-insurance health insurance fund (an internal service fund) to account for group insurance risks. The City has agreed to pay a portion of the employees' deductible.

The claims liability of \$7,692 reported in the fund at June 30, 2008 is based on claims reported but unpaid and estimated claims incurred but not reported as of June 30, 2008. Changes in the balances of claims liability during the year are as follows:

Unpaid claims - June 30, 2007 .....	\$ -
Incurred claims .....	41,734
Less claims paid .....	<u>(34,042)</u>
Unpaid claims - June 30, 2008	<u>\$ 7,692</u>

The City has workmen's compensation coverage through the Iowa Municipalities Workers' Compensation Association. In addition, the City purchases employee blanket bond coverage from other insurers. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

## 16. USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

## REQUIRED SUPPLEMENTARY INFORMATION

CITY OF SPIRIT LAKE  
BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS  
AND CHANGES IN BALANCES - BUDGET AND ACTUAL (CASH BASIS) -  
GOVERNMENTAL AND PROPRIETARY FUNDS  
REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2008

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>	Total <u>Actual</u>
RECEIPTS:			
Property taxes .....	\$1,284,869		\$ 1,284,869
Other city taxes .....	965,017		965,017
Tax increment financing revenues .....	2,839,656		2,839,656
Licenses and permits .....	54,162		54,162
Use of money and property .....	122,085	\$ 53,486	175,571
Intergovernmental .....	732,578		732,578
Charges for services .....	13,448	2,831,541	2,844,989
Special assessments .....		2,338	2,338
Miscellaneous .....	<u>168,498</u>	<u>33,050</u>	<u>201,548</u>
TOTAL RECEIPTS	<u>6,180,313</u>	<u>2,920,415</u>	<u>9,100,728</u>
DISBURSEMENTS:			
Public safety .....	850,649		850,649
Public works .....	743,808		743,808
Culture and recreation .....	538,536		538,536
Community and economic development .....	51,115		51,115
General government .....	422,408		422,408
Debt service .....	2,248,864		2,248,864
Capital projects .....	3,080,405		3,080,405
Business type .....		<u>3,700,634</u>	<u>3,700,634</u>
TOTAL DISBURSEMENTS	<u>7,935,785</u>	<u>3,700,634</u>	<u>11,636,419</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	<u>(1,755,472)</u>	<u>(780,219)</u>	<u>(2,535,691)</u>
OTHER FINANCING SOURCES (USES):			
Operating transfer in .....	3,091,657	166,137	3,257,794
Operating transfer out .....	(3,119,926)	(137,868)	(3,257,794)
Bond and note proceeds - net .....	5,255,250	269,065	5,524,315
Sale of fixed assets .....	<u>290,439</u>	<u>30,263</u>	<u>320,702</u>
TOTAL OTHER FINANCING SOURCES	<u>5,517,420</u>	<u>327,597</u>	<u>5,845,017</u>
EXCESS (DEFICIENCY) OF RECEIPTS AND OTHER FINANCING SOURCES (USES) OVER (UNDER) DISBURSEMENTS	3,761,948	(452,622)	3,309,326
BALANCE - BEGINNING OF YEAR .....	<u>(1,688,904)</u>	<u>2,877,645</u>	<u>1,188,741</u>
BALANCE - END OF YEAR	<u>\$2,073,044</u>	<u>\$2,425,023</u>	<u>\$ 4,498,067</u>

Less Funds Not Required to be <u>Budgeted</u>	<u>Net Actual</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Final to Actual Variance</u>
	\$ 1,284,869	\$1,290,508	\$ 1,290,508	\$ (5,639)
	965,017	965,390	972,390	(7,373)
	2,839,656	2,846,318	2,846,318	(6,662)
	54,162	166,675	166,675	(112,513)
\$ 5,620	169,951	51,000	90,115	79,836
	732,578	408,777	711,936	20,642
37,800	2,807,189	3,153,633	3,094,633	(287,444)
	2,338			2,338
<u>1,069</u>	<u>200,479</u>	<u>216,800</u>	<u>243,938</u>	<u>(43,459)</u>
<u>44,489</u>	<u>9,056,239</u>	<u>9,099,101</u>	<u>9,416,513</u>	<u>(360,274)</u>
	850,649	897,352	988,585	137,936
	743,808	662,802	806,077	62,269
	538,536	554,685	579,911	41,375
	51,115		52,000	885
	422,408	469,060	516,951	94,543
	2,248,864	1,973,762	2,261,861	12,997
	3,080,405	2,307,205	3,898,197	817,792
<u>34,042</u>	<u>3,666,592</u>	<u>3,266,356</u>	<u>3,969,016</u>	<u>302,424</u>
<u>34,042</u>	<u>11,602,377</u>	<u>10,131,222</u>	<u>13,072,598</u>	<u>1,470,221</u>
<u>10,447</u>	<u>(2,546,138)</u>	<u>(1,032,121)</u>	<u>(3,656,085)</u>	<u>1,109,947</u>
166,137	3,091,657	2,737,865	3,459,128	(367,471)
	(3,257,794)	(2,737,865)	(3,459,128)	201,334
	5,524,315	2,922,205	5,592,014	(67,699)
	<u>320,702</u>		<u>322,727</u>	<u>(2,025)</u>
<u>166,137</u>	<u>5,678,880</u>	<u>2,922,205</u>	<u>5,914,741</u>	<u>(235,861)</u>
176,584	3,132,742	1,890,084	2,258,656	874,086
<u>405,478</u>	<u>783,263</u>	<u>1,205,394</u>	<u>1,192,979</u>	<u>(409,716)</u>
<u>\$582,062</u>	<u>\$ 3,916,005</u>	<u>\$ 3,095,478</u>	<u>\$ 3,451,635</u>	<u>\$ 464,370</u>

CITY OF SPIRIT LAKE  
BUDGET TO GAAP RECONCILIATION  
REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2008

	Governmental Funds		
	<u>Cash Basis</u>	<u>Accrual Adjustments</u>	<u>Modified Accrual Basis</u>
REVENUES .....	\$6,180,313	\$ (326,339)	\$5,853,974
EXPENDITURES/EXPENSES .....	<u>7,935,785</u>	<u>(529,753)</u>	<u>7,406,032</u>
NET	(1,755,472)	203,414	(1,552,058)
OTHER FINANCING SOURCES (USES) - NET ...	5,517,420	(91,700)	5,425,720
BEGINNING FUND BALANCES/NET ASSETS ....	(1,688,904)	(2,614,464)	(4,303,368)
NET INCREASE IN RESERVES FOR PREPAID EXPENSES AND INVENTORIES .....	<u>                    </u>	<u>(7,152)</u>	<u>(7,152)</u>
ENDING FUND BALANCES/NET ASSETS	<u>\$2,073,044</u>	<u>\$(2,509,902)</u>	<u>\$ (436,858)</u>

<u>Proprietary Funds</u>		
<u>Cash</u> <u>Basis</u>	<u>Accrual</u> <u>Adjustments</u>	<u>Accrual</u> <u>Basis</u>
\$2,920,415	\$ (134,368)	\$ 2,786,047
<u>3,700,634</u>	<u>(1,329,404)</u>	<u>2,371,230</u>
(780,219)	1,195,036	414,817
327,597	(207,628)	119,969
2,877,645	7,505,436	10,383,081
<u>                    </u>	<u>                    </u>	<u>                    </u>
<u>\$2,425,023</u>	<u>\$8,492,844</u>	<u>\$10,917,867</u>

CITY OF SPIRIT LAKE  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
FOR THE YEAR ENDED JUNE 30, 2008

The budgetary comparison is presented as Required Supplementary Information in accordance with Government Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund or fund type. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business-type activities. Function disbursements required to be budgeted include disbursements for the general fund, special revenue funds, debt service fund, capital projects funds, and enterprise funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, two budget amendments increased budgeted disbursements by \$2,941,376. These budget amendments are reflected in the final budgeted amounts.

During the year, disbursements did not exceed budgeted amounts.

## OTHER SUPPLEMENTARY INFORMATION



CITY OF SPIRIT LAKE  
COMBINING BALANCE SHEET  
ALL NONMAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2008

	Special Revenue Funds				
	Road Use Tax	Employee Benefits	Emergency	Friends of the Library	Total
ASSETS:					
Cash and pooled investments .....	\$ 30,432	\$ 25,417		\$ 29,472	\$ 85,321
Receivables:					
Property tax:					
Delinquent .....		3,671	\$ 426		4,097
Succeeding year .....		366,080	48,835		414,915
Accrued interest .....				33	33
Due from other governments .....	<u>29,316</u>				<u>29,316</u>
 TOTAL ASSETS	 <u>\$ 59,748</u>	 <u>\$395,168</u>	 <u>\$ 49,261</u>	 <u>\$ 29,505</u>	 <u>\$533,682</u>
 LIABILITIES AND FUND BALANCES					
LIABILITIES:					
Accounts payable .....	\$ 28,488			\$ 28	\$ 28,516
Salaries payable .....		\$ 6,303			6,303
Deferred revenue:					
Succeeding year property tax .....		366,080	\$ 48,835		414,915
TOTAL LIABILITIES	<u>28,488</u>	<u>372,383</u>	<u>48,835</u>	<u>28</u>	<u>449,734</u>
 FUND BALANCES:					
Undesignated:					
Reported in special revenue funds	<u>31,260</u>	<u>22,785</u>	<u>426</u>	<u>29,477</u>	<u>83,948</u>
TOTAL FUND BALANCES	<u>31,260</u>	<u>22,785</u>	<u>426</u>	<u>29,477</u>	<u>83,948</u>
 TOTAL LIABILITIES AND FUND EQUITY	 <u>\$ 59,748</u>	 <u>\$395,168</u>	 <u>\$ 49,261</u>	 <u>\$ 29,505</u>	 <u>\$533,682</u>

CITY OF SPIRIT LAKE  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND  
 CHANGES IN FUND BALANCES  
 ALL NONMAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2008

	Special Revenue Funds				
	Road Use Tax	Employee Benefits	Emergency	Friends of the Library	Total
REVENUES:					
Property taxes .....		\$278,465	\$31,823		\$310,288
Other city taxes .....		16,042	1,830		17,872
Use of money and property .....				\$ 1,112	1,112
Intergovernmental .....	\$366,317			5,087	371,404
Miscellaneous .....		217		15,573	15,790
TOTAL REVENUES	<u>366,317</u>	<u>294,724</u>	<u>33,653</u>	<u>21,772</u>	<u>716,466</u>
EXPENDITURES:					
Public safety .....		152,656			152,656
Public works .....	368,260	70,436			438,696
Culture and recreation .....		63,903		20,520	84,423
General government .....		49,740			49,740
TOTAL EXPENDITURES	<u>368,260</u>	<u>336,735</u>		<u>20,520</u>	<u>725,515</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(1,943)	(42,011)	33,653	1,252	(9,049)
OTHER FINANCING SOURCES (USES):					
Operating transfers in .....		56,367			56,367
Operating transfers out .....			(33,227)		(33,227)
NET CHANGE IN FUND BALANCES	(1,943)	14,356	426	1,252	14,091
FUND BALANCES - BEGINNING OF YEAR.....	<u>33,203</u>	<u>8,429</u>		<u>28,225</u>	<u>69,857</u>
FUND BALANCES - END OF YEAR	<u>\$ 31,260</u>	<u>\$ 22,785</u>	<u>\$ 426</u>	<u>\$29,477</u>	<u>\$ 83,948</u>

CITY OF SPIRIT LAKE  
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION -  
 ALL GOVERNMENTAL FUNDS  
 FOR THE LAST FOUR YEARS

	Modified Accrual Basis			
	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
REVENUES:				
Property tax .....	\$ 1,287,697	\$ 1,462,918	\$ 1,129,537	\$ 843,981
Tax increment financing .....	2,848,645	1,872,314	2,172,594	1,731,352
Other city taxes .....	978,939	988,312	826,485	891,781
Licenses and permits .....	49,870	90,944	131,435	108,201
Use of money and property .....	123,098	139,049	97,431	20,284
Intergovernmental .....	432,505	1,038,973	454,263	859,592
Charges for services .....	13,448	19,308	121,608	18,413
Miscellaneous .....	<u>119,772</u>	<u>227,138</u>	<u>208,725</u>	<u>443,630</u>
 TOTAL REVENUES	 <u>\$ 5,853,974</u>	 <u>\$ 5,838,956</u>	 <u>\$ 5,142,078</u>	 <u>\$ 4,917,234</u>
 EXPENDITURES:				
Public safety .....	\$ 952,649	\$ 941,969	\$ 859,905	\$ 778,099
Public works .....	753,294	1,373,452	1,100,480	699,150
Culture and recreation .....	536,047	560,404	649,885	404,370
Community and economic development .....	162,026	413,350	485,132	287,054
General government .....	353,933	317,099	363,725	308,252
Debt service .....	2,157,365	3,094,800	1,879,487	4,922,135
Capital projects .....	<u>2,490,718</u>	<u>7,293,003</u>	<u>5,042,715</u>	<u>3,701,608</u>
 TOTAL EXPENDITURES	 <u>\$ 7,406,032</u>	 <u>\$13,994,077</u>	 <u>\$10,381,329</u>	 <u>\$11,100,668</u>

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS

The Honorable Mayor and  
Members of the City Council  
City of Spirit Lake  
Spirit Lake, IA 51360

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Spirit Lake, Iowa, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated January 16, 2009. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies including a deficiency we consider to be a material weakness.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a

misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item I-A-08 is a material weakness.

### **Compliance**

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2008 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Spirit Lake, and other parties to whom the City may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*Wintner, Steve HC LLP*

January 16, 2009

CITY OF SPIRIT LAKE  
SCHEDULE OF FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2008

**Part I: Findings Related to the General Purpose Financial Statements**

**Reportable Conditions:**

- I-A-08    Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted, because of the limited number of employees, there are times when employees are performing duties which are not compatible.

Recommendation - We realize that with a limited number of office employees segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - The City will continue to review its control procedures.

Conclusion - Response accepted.

- I-B-08    Miscellaneous Receivables - We noted that the City has numerous amounts due from customers in addition to utility receivables. These are primary additional solid waste charges, permits, and miscellaneous. The city does not have a system which keeps track of the amounts due. In addition, many of these are considerably past due and may be uncollectible.

Recommendation - We recommend the City purchase a simple accounts receivable package that could keep track of the receivables - amounts billed, payments received, and balances due. A monthly reconciliation should be done which reconciles payments received to deposited amounts. The City should monitor these amounts and write off amounts that are uncollectible.

Response - The City will follow this recommendation.

Conclusion - Response accepted.

**Instances of Non-Compliance:**

No findings were noted.

CITY OF SPIRIT LAKE  
SCHEDULE OF FINDINGS - Continued  
FOR THE YEAR ENDED JUNE 30, 2008

**Part II: Other Findings Related to Required Statutory Reporting**

II-A-08 Certified Budget - We noted that disbursements in the capital projects and community and economic development functions exceeded the original budgeted amounts before the first budget amendment. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation - The budget should have been amended in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - In the future, we will amend the budget prior to allowing disbursements to exceed budgeted amounts, if applicable.

Conclusion - Response accepted.

II-B-08 Questionable Expenditures - We noted no expenditures that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-C-08 Travel Expense - No expenditures of City money for travel expenses of spouses of City officials or employees were noted.

II-D-08 Business Transactions - The City paid Spirit Lake Mainsail (Mainsail) \$41,000 during the year ended June 30, 2008. Mayor Blain Andera is the executive director of Mainsail. This does not appear to represent a conflict of interest since the mayor is only an employee of Mainsail and does not have a vote on the Mainsail funding. No other business transactions between the City and city officials or employees were noted.

II-E-08 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-F-08 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

II-G-08 Revenue Bonds/Notes - No non-compliance with revenue note provisions were noted.

II-H-08 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

CITY OF SPIRIT LAKE  
SCHEDULE OF FINDINGS - Continued  
FOR THE YEAR ENDED JUNE 30, 2008

**Part II: Other Findings Related to Required Statutory Reporting** - Continued

II-I-08    Financial Condition - The Capital Projects Fund had a deficit balance of \$2,016,699 at June 30, 2008.

Recommendation - The City needs to investigate alternatives to eliminate this deficit and return this fund to a sound financial condition.

Response - The deficit is due to a large payable due to the Iowa Department of Transportation. When this payable becomes due, the City anticipates using bond proceeds or transfers from other funds to eliminate the deficit.

Conclusion - Response accepted.

II-J-08    IRC Section 457 Plans - The City has three 457 plans. It appears that the plan documents have not been updated for recent Internal Revenue Code changes.

Recommendation - We recommend the City hire a consultant familiar with 457 plans to review and update the plan documents, if required.

Response - The City will follow this recommendation.

Conclusion - Response accepted.